

CITY OF FAYETTE, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2016

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CITY OF FAYETTE, IOWA

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Andrew Wenthe	Mayor	Dec 2017
Patty Nefzger	Mayor Pro Tem	Dec 2017
Curtis Larson	Council Member	Dec 2017
Tiffany Kragness	Council Member	Dec 2017
Kris McGrane	Council Member	Dec 2017
Nancy Wulfekuhle	Council Member	Dec 2017
Christie Dennis	City Coordinator/Clerk	Indefinite
Gerald Hildebrand	Public Works Director	Indefinite
Richard Pisanti	Chief of Police	Indefinite
Jeff Bradley	Treasurer	Indefinite
David James Hansen	Attorney	Indefinite

CITY OF FAYETTE, IOWA

RFSW Ridihalgh Fuelling Snitker Weber & Co.

C E R T I F I E D P U B L I C A C C O U N T A N T S

*James R. Ridihalgh, CPA
Gene L. Fuelling, CPA
Donald A. Snitker, CPA
Donald A. Weber, CPA*

*Jeremy P. Lockard, CPA
Alan W. Flick, CPA
Brent A. Waters, CPA*

Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Fayette, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Fayette as of June 30, 2016, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

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Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Fayette, Iowa's basic financial statements. The supplementary information included in Schedules 1 through 5 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 21 through 22 and 24 through 26, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Management has omitted its Management's Discussion and Analysis that the cash basis of accounting requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The auditor's opinion on the basic financial statements is not affected by the missing information.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 23, 2016 on our consideration of Sample Cash City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Sample Cash City's internal control over financial reporting and compliance.



Ridihalgh, Fuelling, Snitker, Weber & Company

January 23, 2017

Basic Financial Statements

City of Fayette, Iowa

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2016

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 345,953	145,207	-	-
Public works	345,673	61,715	-	-
Culture and recreation	115,951	-	14,671	-
Community and economic development	13,870	7,500	-	-
General government	65,866	29,161	3,070	-
Debt service	48,347	-	-	-
Capital projects	10,775	-	2,000	-
Total governmental activities	946,435	243,583	19,741	-
Business type activities:				
Water	170,659	254,218	-	-
Sewer	314,146	362,036	-	-
CDBG sewer	704,747	-	-	83,796
Other business type activities	21,110	31,162	-	-
Total business type activities	1,210,662	647,416	-	83,796
Total	\$ 2,157,097	890,999	19,741	83,796

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Other city tax
 Unrestricted interest on investments
 Bond proceeds, net
 State tax reimbursement
 Miscellaneous
 Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

Restricted:
 Expendable:
 Debt service
 Streets
 Urban renewal purposes
 Other purposes
 Unrestricted

Total cash basis net position

See notes to financial statements

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(200,746)	-	(200,746)
(283,958)	-	(283,958)
(101,280)	-	(101,280)
(6,370)	-	(6,370)
(33,635)	-	(33,635)
(48,347)	-	(48,347)
(8,775)	-	(8,775)
(683,111)	-	(683,111)
-	83,559	83,559
-	47,890	47,890
-	(620,951)	(620,951)
-	10,052	10,052
-	(479,450)	(479,450)
(683,111)	(479,450)	(1,162,561)
353,237	-	353,237
29,731	-	29,731
9,439	-	9,439
95,425	-	95,425
17,149	-	17,149
7,284	1,831	9,115
-	632,120	632,120
165,349	-	165,349
30,555	2	30,557
7,006	(7,006)	-
715,175	626,947	1,342,122
32,064	147,497	179,561
2,116,063	334,478	2,450,541
\$ 2,148,127	481,975	2,630,102
\$ 13,552	-	13,552
380,662	-	380,662
41,387	-	41,387
34,468	19,380	53,848
1,678,058	462,595	2,140,653
\$ 2,148,127	481,975	2,630,102

City of Fayette, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2016

	General	Special Revenue Street Fund	Other Nonmajor Governmental Funds	Total
Receipts:				
Property tax	\$ 353,237	-	9,439	362,676
Tax increment financing	-	-	29,731	29,731
Other city tax	17,149	-	95,425	112,574
Licenses and permits	2,990	-	-	2,990
Use of money and property	15,509	-	-	15,509
Intergovernmental	3,070	165,349	-	168,419
Charges for service	151,061	-	61,715	212,776
Special assessments	-	-	-	-
Miscellaneous	50,930	5,526	10,362	66,818
Total receipts	593,946	170,875	206,672	971,493
Disbursements:				
Operating:				
Public safety	345,953	-	-	345,953
Public works	-	285,661	60,012	345,673
Culture and recreation	115,951	-	-	115,951
Community and economic development	13,870	-	-	13,870
General government	65,866	-	-	65,866
Debt service	-	-	48,347	48,347
Capital projects	-	-	10,775	10,775
Total disbursements	541,640	285,661	119,134	946,435
Excess (deficiency) of receipts over (under) disbursements	52,306	(114,786)	87,538	25,058
Other financing sources (uses):				
Transfers in	42,722	92,291	86,020	221,033
Transfers out	(113,193)	-	(100,834)	(214,027)
Net other financing sources (uses)	(70,471)	92,291	(14,814)	7,006
Net change in cash balances	(18,165)	(22,495)	72,724	32,064
Cash balances beginning of year	1,754,334	403,157	(41,428)	2,116,063
Cash balances end of year	\$ 1,736,169	380,662	31,296	2,148,127
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ -	-	13,552	13,552
Streets	-	380,662	-	380,662
Urban renewal purposes	-	-	41,387	41,387
Other purposes	34,468	-	-	34,468
Assigned	90,671	-	-	90,671
Unassigned	1,611,030	-	(23,643)	1,587,387
Total cash basis fund balances	\$ 1,736,169	380,662	31,296	2,148,127

See notes to financial statements

City of Fayette, Iowa
Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2016

	Enterprise Funds				Total
	Water	Sewer	CDBG Sewer	Other Nonmajor Proprietary Funds	
Operating receipts:					
Use of money and property	\$ 1,135	696	-	-	1,831
Intergovernmental	-	-	83,796	-	83,796
Charges for service	254,218	362,037	-	31,163	647,418
Total operating receipts	255,353	362,733	83,796	31,163	733,045
Operating disbursements:					
Capital projects	-	-	704,747	-	704,747
Business type activities	170,659	314,146	-	21,110	505,915
Total operating disbursements	170,659	314,146	704,747	21,110	1,210,662
Excess (deficiency) of operating receipts over (under) operating disbursements	84,694	48,587	(620,951)	10,053	(477,617)
Non-operating receipts (disbursements):					
Bond proceeds, net	-	-	632,120	-	632,120
Transfers in	-	43,981	-	-	43,981
Transfers out	-	-	-	(50,987)	(50,987)
Net non-operating receipts (disbursements)	-	43,981	632,120	(50,987)	625,114
Excess (deficiency) of receipts over (under) disbursements	84,694	92,568	11,169	(40,934)	147,497
Net change in cash balances	84,694	92,568	11,169	(40,934)	147,497
Cash balances beginning of year	162,134	350,822	(273,635)	95,157	334,478
Cash balances end of year	\$ 246,828	443,390	(262,466)	54,223	481,975
Cash Basis Fund Balances					
Restricted for debt service	\$ -	-	-	19,380	19,380
Unassigned	246,828	443,390	(262,466)	34,843	462,595
Total cash basis fund balances	\$ 246,828	443,390	(262,466)	54,223	481,975

See notes to financial statements

CITY OF FAYETTE

Notes to Financial Statements

June 30, 2016

(1) Summary of Significant Accounting Policies

The City of Fayette is a political subdivision of the State of Iowa located in Fayette County. It was first incorporated in 1874 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Fayette has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The City is represented on the Fayette County Solid Waste Management Commission, Fayette County Emergency Management Commission, Fayette County Joint E911 Service Board, Fayette County Economic Development and Upper Explorerland Regional Housing Authority.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Streets Fund is used to account for the activity of the streets department that maintains the streets of the City.

The City reports the following major proprietary funds:

The Enterprise Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise CDBG Sewer Project Fund accounts for the funding and expenditures related to the City's capital project providing improvements to the City's sewer system.

C. Measurement Focus and Basis of Accounting

The City of Fayette maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications-committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods

in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable-Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted-Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state, or federal laws or imposed by law through constitutional provisions or enabling legislation.

Committed-Amounts the Council intends to use for specific purposes as approved via motion, resolution, or other formal action.

Assigned-Amounts the Council intends to use for specific purposes.

Unassigned-All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2016 the City exceeded amounts budgeted in the general government and the debt service programs.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts.

As of June 30, 2016, the City had no investments, as all ending fund balances were in the form of certificates of deposit, savings accounts and checking accounts.

Interest rate risk-The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days and meet their definition of *Instruments Eligible for Investment*. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity of the general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Urban Renewal Tax Increment Financing		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	20,793	903	18,590	1,385	94,716	35,485	134,099	37,773
2018	3,932	173	46,835	1,139	96,716	33,027	147,483	34,339
2019	-	-	47,095	879	83,450	29,784	130,545	30,663
2020	-	-	47,371	603	76,000	28,240	123,371	28,843
2021	-	-	47,664	311	77,000	26,720	124,664	27,031
2022-2026	-	-	100,825	-	410,000	115,820	510,825	115,820
2027-2031	-	-	39,269	-	407,453	67,120	446,722	67,120
Total	\$ 24,725	1,076	347,649	4,317	1,245,335	336,196	1,617,709	341,589

General Obligation Note

The City entered into a loan agreement for \$150,000 in March 2011 to purchase a new fire truck tanker vehicle for an essential corporate purpose in accordance with Chapter 384.24 of the Code of Iowa. Approximately half or more of the Loan Agreement shall be payable from the City Debt Service Fund and the other half of the loan shall be payable from funds received from Center Township, Smithfield Township, Westfield Township and the City of Randalia by them levying a tax to pay the loan. No written agreement exists with these separate entities regarding their respective shares of the note to be paid to the City of Fayette. Verbal agreements with the township trustees and Mayor of the City of Randalia were obtained. Total principal remaining on the note is \$24,725.

Tax Increment Financing - Economic Development Obligations:

The City issued a \$50,000 urban renewal tax increment financing (TIF) grant in June 2006 for the "Blessing Addition" project within the urban renewal area. The use of City funds to finance the City contributions is in accordance with Chapter 403.19 of the Code of Iowa. Total principal and interest remaining on the interfund loan is \$27,046, payable through July 2021. For the current year, interest paid was \$1,615.

The City has provided TIF assistance in the form of tax rebates for the North Ridge Condominium Development in August 2011. The assistance will help with the developers documented costs of constructing the improvements up to \$229,570. Each payment shall be in the amount which represents 58.35 percent of the incremental property taxes paid with respect to the incremental value of the property in the six months preceding such payment date. The remaining portion of such taxes, equal to 41.65 percent, shall be retained by the City for purpose of providing assistance to low and moderate income (LMI) families, pursuant to section 403.22 of the Code of Iowa. For the current year, the payment to the developer and LMI setback were \$38,944 and \$10,397, respectively. There is no interest on this TIF rebate.

The city entered into an agreement for private development in November 2014 and provided TIF assistance for the Colonial Manors Development. The City has agreed to make up to five (5) years of consecutive annual payments of \$28,000 Economic Development Grants to Developer up to a total amount not to exceed \$140,000. There were no payments in the current fiscal year. There is no interest on this TIF grant.

Revenue Bonds/Notes:

The City has a Revenue Bond payable to Berkadia Commercial Mortgage on a Water Tower. The Water Revenue Bond was issued in 1978 with an original amount of \$400,000. The City has pledged future water customer revenues net of certain operating disbursements will be equal to at least 1.25 times the maximum amount that will become due in any fiscal year for the combined total of both principal and interest. The proceeds of the bonds were used for improvements to the water tower. The City paid \$19,923 in principal and \$3,793 in interest during year ended June 30, 2016. Balance at June 30, 2016 was \$56,882.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,253,453 of sewer revenue notes issued in April 2015. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2035. The total principal remaining to be paid on the notes is \$1,188,453. For the current year, principal and interest paid were \$70,000 and \$18,015, respectively. The resolutions providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Charges for sewer services shall be at least sufficient to produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the bonds falling due in the same year.
- (c) Charges for sewer services shall be at least sufficient to meet the operation and maintenance expenses of the wastewater treatment system.

(4) Pension and Retirement Benefits

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding

Policy requires the actuarial contribution rate be determined using the “entry age normal” actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%

The City’s contributions to IPERS for the year ended June 30, 2016 totaled \$31,942.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$216,807 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City’s proportion of the net pension liability was based on the City’s share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City’s proportion was 0.0043884%, which was an increase of 0.0001874% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City’s pension expense, deferred outflows of resources and deferred inflows of resources totaled \$22,125; \$53,343; and \$69,615 respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of inflation	
(effective June 30, 2014)	3.00% per annum.
Rates of salary increase	4.00 to 17.00% average, including inflation.
(effective June 30, 2010)	Rates vary by membership group.
Long-term investment rate of return	7.50% compounded annually, net of investment
(effective June 30, 1996)	expense, including inflation.
Wage growth	4.00% per annum, based on 3.00% inflation
(effective June 30, 1990)	and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA. The long-term expected rate of return on IPERS’ investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28%	2.04%
Domestic equity	24	6.29
International equity	16	6.75
Private equity/debt	11	11.32
Real estate	8	3.48
Credit opportunities	5	3.63
U.S. TIPS	5	1.91
Other real assets	2	6.24
Cash	1	(0.71)
Total	100%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$430,461	216,807	36,530

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Health Insurance Contributions

Plan Description - For employees hired before April 15, 2015, the City pays 75% of the cost of insurance for a family to full time employees. If the full time employee has insurance through a spouse the employee is paid the 75% in the form of wages. Single employees have their insurance paid for and the difference between the single cost and the 75% of family cost is given to the employee in the form of wages. Married employees who have the family plan are responsible for the portion of insurance costs above 75%.

For employees hired after April 15, 2015, the City pays 75% of the cost of insurance for a family to full time employees if the employee participates in the city's group plan. The employee pays the remaining 25% of the family health insurance premium. The City pays 100% of a single coverage health insurance premium through the City's group plan. If a full-time employee doesn't want health insurance with the City's group health insurance plan, the employee will not receive the same benefit in the form of compensation.

City pays 100% for the Public Works Director which was approved in a prior fiscal year in lieu of a pay raise.

There are six full time employees who are active in the City's health insurance benefits. Employees paid \$4,051 and the City paid \$59,003 toward the insurance. The City paid \$43,695 in health insurance benefits that was included as compensation in employee's paychecks

(6) **Termination Benefits**

City of Fayette employees accumulate a limited amount of earned but unused vacation hours based on the length of employment. There is no carry-over of vacation from one year to the next without prior administrative approval. It is payable when used and may accumulate to a maximum of one year accumulated vacation hours. Vacation is payable upon resignation, with two weeks advance written notice, or retirement will be paid at regular salary/wage for unused vacation left at time of resignation or retirement.

Full time employees earn sick leave at the rate of 8 hours per month with a total of 96 working hours per year. They may accumulate a maximum of 480 working hours. No sick leave will be paid upon resignation. Upon retirement employees will be paid for their accumulated sick leave up to a maximum of 480 hours at the rate of pay at retirement.

Retirement is defined as age 55 or 30 years with IPERS.

Type of Benefit	Amount
Sick Leave	\$ 35,317
Vacation Leave	<u>27,369</u>
Total	\$ 62,686

This liability has been computed based on rates of pay in effect at June 30, 2016

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(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
CDBG Facade	General Fund	\$ 86,020
General Fund	Special Revenue: Local Option Sales Tax	95,425
Streets	Proprietary: Yard Waste	5,000
Street-RUT	General: T & A	27,173
Streets	TIF	5,409
CD Sewer	General	<u>45,987</u>
Total Interfund Transfers		<u>\$ 265,014</u>

(8) Related Party Transactions

The City had no business transactions between the City and City employees during year ended June 30, 2016.

(9) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(10) Deficit Balance

The Capital Project—Downtown Capital Project and the Capital Project—CDBG Sewer Project both had deficit balances at June 30, 2016. The City will eliminate with the receipt of funds or the transfer of funds.

(11) Litigation

The City is subject to pending litigation seeking compensatory damages of approximately \$18,000. The probability of loss, if any, is undeterminable.

(12) Commitments

The City of Fayette entered into an agreement for construction services related to the 2016 Big Rock Road project. Original contracted cost of the project came in at \$303,085. Two change orders to date have resulted in a net reduction in the original contract cost of \$26,153. As of June 30, 2016, the City has paid \$255,654 with a remaining balance to be paid of \$21,278.

(13) Subsequent Events

The City has evaluated subsequent events through January 23, 2017, the date of audit report, and believe there are no subsequent events requiring disclosure.

(14) New Accounting Pronouncement

The City of Fayette adopted fair value guidance as set forth in Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application. The Statement sets forth guidance for determining and disclosing the fair value of assets and liabilities reported in the financial statements. Adoption of the guidance did not have a significant impact on amounts reported or disclosed in the financial statements.

Other Information

City of Fayette, Iowa

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2016

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds not Required to be Budgeted
Receipts:			
Property tax	\$ 362,676	-	-
Tax increment financing collections	29,731	-	-
Other city tax	112,574	-	-
Licenses and permits	2,990	-	-
Use of money and property	15,509	1,831	-
Intergovernmental	168,419	83,796	-
Charges for service	212,776	647,418	-
Special assessments	-	-	-
Miscellaneous	66,818	-	-
Total receipts	971,493	733,045	-
Disbursements:			
Public safety	345,953	-	-
Public works	345,673	-	-
Culture and recreation	115,951	-	-
Community and economic development	13,870	-	-
General government	65,866	-	-
Debt service	48,347	-	-
Capital projects	10,775	704,747	-
Business type activities	-	505,915	-
Total disbursements	946,435	1,210,662	-
Excess (deficiency) of receipts over (under) disbursements	25,058	(477,617)	-
Other financing sources (uses), net	7,006	625,114	-
Excess of receipts and other financing sources over disbursements and other financing uses	32,064	147,497	-
Balances beginning of year	2,116,063	334,478	-
Balances end of year	\$ 2,148,127	481,975	-

See accompanying independent auditor's report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
362,676	327,298	327,298	35,378
29,731	37,409	37,409	(7,678)
112,574	124,927	124,927	(12,353)
2,990	2,970	2,970	20
17,340	319,336	496,384	(479,044)
252,215	144,526	869,526	(617,311)
860,194	1,039,723	1,039,723	(179,529)
-	-	-	-
66,818	-	-	66,818
1,704,538	1,996,189	2,898,237	(1,193,699)
345,953	369,416	369,416	23,463
345,673	435,682	612,730	267,057
115,951	125,923	125,923	9,972
13,870	141,272	141,272	127,402
65,866	64,498	64,498	(1,368)
48,347	9,403	9,403	(38,944)
715,522	37,409	762,409	46,887
505,915	717,679	717,679	211,764
2,157,097	1,901,282	2,803,330	646,233
(452,559)	94,907	94,907	(547,466)
632,120	-	-	632,120
179,561	94,907	94,907	84,654
2,450,541	2,476,471	2,476,471	(25,930)
2,630,102	2,571,378	2,571,378	58,724

CITY OF FAYETTE

Notes to Other Information – Budgetary Reporting

June 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$902,048. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the general government and debt service functions. Additionally, City disbursements exceeded the amount budgeted before amendment during the year in the capital projects function.

City of Fayette, Iowa

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Two Years*

Other Information

	2016	2015
City's proportion of the net pension liability	0.0043884%	0.0042010%
City's proportionate share of the net pension liability	\$ 216,807	\$ 166,608
City's covered-employee payroll	\$ 353,888	\$ 397,941
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	61.26%	41.87%
Plan fiduciary net position as a percentage of the total pension liability	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See accompanying independent auditor's report.

City of Fayette, Iowa

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years

Other Information

	2016	2015	2014	2013
Statutorily required contribution	\$ 31,942	36,530	38,644	34,319
Contributions in relation to the statutorily required contribution	(31,942)	(36,530)	(38,644)	(34,319)
Contribution deficiency (excess)	\$ -	-	-	-
City's covered-employee payroll	\$ 353,888	397,941	418,842	379,962
Contributions as a percentage of covered-employee payroll	9.03%	9.18%	9.23%	9.03%

See accompanying independent auditor's report.

2012	2011	2010	2009	2008	2007
32,870	27,039	25,857	27,414	31,398	29,230
(32,870)	(27,039)	(25,857)	(27,414)	(31,398)	(29,230)
-	-	-	-	-	-
381,356	348,120	349,341	353,205	285,891	267,597
8.62%	7.77%	7.40%	7.76%	10.98%	10.92%

CITY OF FAYETTE

Notes to Other Information – Pension Liability

Year ended June 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in future years. It also included the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

City of Fayette, Iowa

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2016

	Special Revenue			Capital Projects	
	Local Option Sales Tax	Tax Increment Financing	Recycling Land Fill	Downtown Project	CDBG Façade Grant
Receipts:					
Property tax	\$ -	-	-	-	-
Tax increment financing	-	29,731	-	-	-
Other city tax	95,425	-	-	-	-
Charges for services	-	-	61,715	-	-
Miscellaneous	-	-	-	2,000	-
Total receipts	95,425	29,731	61,715	2,000	-
Disbursements:					
Operating:					
Public works	-	-	60,012	-	-
Debt service	-	38,944	-	-	-
Capital projects	-	76	-	10,699	-
Total disbursements	-	39,020	60,012	10,699	-
Excess (deficiency) of receipts over (under) disbursements	95,425	(9,289)	1,703	(8,699)	-
Other financing sources (uses):					
Transfers in	-	-	-	-	86,020
Transfers out	(95,425)	(5,409)	-	-	-
Net other financing sources (uses)	(95,425)	(5,409)	-	-	86,020
Net change in cash balances	-	(14,698)	1,703	(8,699)	86,020
Cash balances beginning of year	-	56,085	(420)	(16,227)	(86,020)
Cash balances end of year	\$ -	41,387	1,283	(24,926)	-
Cash Basis Fund Balances					
Restricted for:					
Debt service	\$ -	-	-	-	-
Urban renewal purposes	-	41,387	-	-	-
Unassigned	-	-	1,283	(24,926)	-
Total cash basis fund balances	\$ -	41,387	1,283	(24,926)	-

See accompanying independent auditor's report

Debt Service	Total
9,439	9,439
-	29,731
-	95,425
-	61,715
8,362	10,362
17,801	206,672
-	60,012
9,403	48,347
-	10,775
9,403	119,134
8,398	87,538
-	86,020
-	(100,834)
-	(14,814)
8,398	72,724
5,154	(41,428)
13,552	31,296
13,552	13,552
-	41,387
-	(23,643)
13,552	31,296

City of Fayette, Iowa

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2016

	Water Reserve	Water T & A	Sewer Reirement	Yard Waste	Storm Water
Operating receipts:					
Charges for service	\$ -	14,580	-	12,259	4,324
Total operating receipts	-	14,580	-	12,259	4,324
Operating disbursements:					
Business type activities	-	14,143	-	6,967	-
Total operating disbursements	-	14,143	-	6,967	-
Excess (deficiency) of operating receipts over (under) operating disbursements	-	437	-	5,292	4,324
Non-operating receipts (disbursements):					
Transfer out	-	-	(45,987)	(5,000)	-
Net non-operating receipts (disbursements)	-	-	(45,987)	(5,000)	-
Excess (deficiency) of receipts over (under) disbursements	-	437	(45,987)	292	4,324
Net change in cash balances	-	437	(45,987)	292	4,324
Cash balances beginning of year	25,000	18,943	45,987	5,227	-
Cash balances end of year	\$ 25,000	19,380	-	5,519	4,324
Cash Basis Fund Balances					
Restricted for debt service	\$ -	19,380	-	-	-
Unassigned	25,000	-	-	5,519	4,324
Total cash basis fund balances	\$ 25,000	19,380	-	5,519	4,324

See accompanying independent auditor's report

Total
31,163
31,163
21,110
21,110
10,053
(50,987)
(50,987)
(40,934)
(40,934)
95,157
54,223
19,380
34,843
54,223

City of Fayette, Iowa
Schedule of Indebtedness
Year ended June 30, 2016

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Note: Fire truck/tanker	3/1/2011	3.50%	\$ 150,000
Urban renewal tax increment financing (TIF) revenue bonds			
Blessing Industries Urban Renewal	6/1/2006	6.00%	50,000
North Ridge Condominium Development	8/1/2011	-	229,570
Colonial Manors Urban Renewal	11/17/2014	-	140,000
Total			
Revenue Bond Water Tower	7/1/1979	5.00%	400,000
Revenue Note Sewer	4/24/2015	1.75%	1,258,453

See accompanying independent auditor's report

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 44,847	-	20,122	24,725	1,574
\$ 26,524	-	3,794	22,730	1,615
223,863	-	38,944	184,919	-
140,000	-	-	140,000	-
\$ 390,387	-	42,738	347,649	1,615
\$ 76,805	-	19,923	56,882	3,793
\$ 621,333	632,120	70,000	1,183,453	18,015

City of Fayette, Iowa

Bond and Note Maturities

June 30, 2016

Year Ending June 30,	General Obligation Note		Revenue Bond		Revenue Note	
	Fire Truck/Tanker		Water Tower		Sewer	
	Issued Mar 1, 2011		Issued Jul 1, 1979		Issued Apr 24, 2015	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2017	3.50%	20,793	-	\$ 23,716	2.00%	\$ 71,000
2018	3.50%	3,932	-	23,716	2.00%	73,000
2019	-	-	-	9,450	2.00%	74,000
2020	-	-	-	-	2.00%	76,000
2021	-	-	-	-	2.00%	77,000
2022	-	-	-	-	2.00%	79,000
2023	-	-	-	-	2.00%	80,000
2024	-	-	-	-	2.00%	82,000
2025	-	-	-	-	2.00%	84,000
2026	-	-	-	-	2.00%	85,000
2027	-	-	-	-	2.00%	87,000
2028	-	-	-	-	2.00%	89,000
2029	-	-	-	-	2.00%	91,000
2030	-	-	-	-	2.00%	92,000
2031	-	-	-	-	2.00%	48,453
Total		<u>\$ 24,725</u>		<u>\$ 56,882</u>		<u>\$ 1,188,453</u>

Urban Renewal Tax Increment Financing Revenue Bonds						
Year Ending June 30,	Blessing Industries Urban Renewal		North Ridge Condominium Development		Colonial Manors Urban Renewal	
	Issued Jun 1, 2006		Issued Aug 1, 2011		Issued Nov 17, 2014	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2017	6.00%	\$ 4,025	-	\$ 14,565	-	\$ -
2018	6.00%	4,270	-	14,565	-	28,000
2019	6.00%	4,530	-	14,565	-	28,000
2020	6.00%	4,806	-	14,565	-	28,000
2021	6.00%	5,099	-	14,565	-	28,000
2022	-	-	-	14,565	-	28,000
2023	-	-	-	14,565	-	-
2024	-	-	-	14,565	-	-
2025	-	-	-	14,565	-	-
2026	-	-	-	14,565	-	-
2027	-	-	-	14,565	-	-
2028	-	-	-	14,565	-	-
2029	-	-	-	10,139	-	-
2030	-	-	-	-	-	-
2031	-	-	-	-	-	-
Total		<u>\$ 22,730</u>		<u>\$ 184,919</u>		<u>\$ 140,000</u>

See accompanying independent auditor's report

City of Fayette, Iowa

Schedule of Receipts by Source and Disbursements By Function
All Governmental Funds

	<u>2016</u>
Property tax	\$ 362,676
Tax increment financing	29,731
Other city tax	112,574
Licenses and permits	2,990
Use of money and property	15,509
Intergovernmental	168,419
Charges for service	212,776
Special assessments	-
Miscellaneous	<u>66,818</u>
Total	<u><u>\$ 971,493</u></u>
Disbursements:	
Operating:	
Public safety	\$ 345,953
Public works	345,673
Culture and recreation	115,951
Community and economic development	13,870
General government	65,866
Debt service	48,347
Capital projects	<u>10,775</u>
Total	<u><u>\$ 946,435</u></u>

See accompanying independent auditor's report

RFSW Ridihalgh Fuelling Snitker Weber & Co.

C E R T I F I E D P U B L I C A C C O U N T A N T S

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Fayette, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 23, 2017. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered City of Fayette, Iowa's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Fayette, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Fayette, Iowa's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of City of Fayette, Iowa's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A, II-C and II-G to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-B, II-D through II-F to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Fayette, Iowa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant

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agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Fayette, Iowa's Responses to the Findings

City of Fayette, Iowa's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. Fayette's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of City of Fayette, Iowa during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Ridihalgh, Fuelling, Snitker, Weber & Co., P.C.

January 23, 2017

CITY OF FAYETTE, IOWA

Schedule of Findings and Questioned Costs

June 30, 2016

Part I: Summary of the Independent Auditor's Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.
- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

II-A Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. These incompatible duties can be summarized into four general categories: Custody, Authorization, Record-Keeping and Review. Ideally, separate individuals have control over each of the duties listed within the following areas for the City:

Cash – handling, reconciling and recording.

Receipts – opening mail, collecting, depositing, journalizing, reconciling and posting.

Disbursements – purchasing, invoice processing, check writing, mailing, reconciling and recording.

Payroll – recordkeeping, preparation and distribution.

Utilities – billing, collecting, depositing and posting.

Financial reporting – preparation and reconciling.

Journal entries – preparing and journalizing.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials.

Response – We will consider this and continue to review procedures.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel and elected officials to provide additional control through review of financial transactions and reports.

II-B Preparation of Financial Statements - Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash receipts and disbursements basis of accounting which is a basis of accounting other than U.S. generally accepted accounting principles. The City does not have an internal control system designed to provide for the preparation of the financial statements, including accompanying footnotes, as required by governmental accounting standards and the cash receipts and disbursements basis of accounting. The guidance in Statement of Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit*, requires us to communicate this matter to those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. The outsourcing of these services is not unusual in an entity of this size.

Recommendation – We realize that obtaining the expertise necessary to prepare the financial statements, including necessary disclosures, in accordance with the cash receipts and disbursements basis of accounting can be considered costly and ineffective. However, it is the responsibility of the City's management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the time necessary to remain current on accounting principles and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on an ongoing basis. Internal financial

statements are prepared monthly for reporting and decision making purposes. The requirements and form of the audited statements are different than the internal needs and change occasionally. Given the size of the organization, it is helpful to rely on the expertise of the auditors to monitor those requirements.

Conclusion – Response acknowledged.

II-C Unrecorded Transactions – During the year, the City received a restricted donation designated to assist a separate, local organization. The check was endorsed by City management and turned over to the local organization. No accounting for the receipt of the check or disbursement of the restricted funds is recorded on the City's records. The essence of this activity results in an unrecorded receipt and an unapproved disbursement of public funds.

Recommendation – The City should endorse and deposit all checks received into the City's bank account and properly account for the receipt of a restricted revenue, as applicable. Subsequent disbursement of the restricted funds should also be properly accounted for and approved by the Council. The City may want to consider establishing a special revenue trust and agency fund in the accounting system for maintaining a balance of future donations to be used to support the above referenced local organization.

Response – We will record all receipts and disbursements of public funds on the City's accounting

Conclusion – Response accepted.

II-D Leave Accruals – As of June 30, 2016, the City had two employees who had accrued vacation leave in excess of the maximum allowed per the employee handbook. City management indicated in at least one of these instances, the Council had approved the excess vacation leave. However, management was unable to provide written documentation of this approval.

Additionally, we noted that management operated accrued sick leave on a calendar year instead of the City's fiscal year ending June 30, 2016. As a result, we noted one employee having accrued sick leave in excess of the maximum allowed per the employee handbook.

Recommendation – The City should operate leave accruals in accordance with the City's fiscal year ending June 30, 2016. Applicable adjustments should be made at the end of each fiscal year to ensure compliance with the City's employee handbook policies. Approval of leave in excess of maximums allowed should be supported by written documentation of Council approval.

Response – We will do this. The City will review personnel in excess of maximums allowed and determine an appropriate resolution to the noncompliance.

Conclusion – Response accepted.

II-E Credit Cards – The City has credit cards for use by various employees while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for the proper accounting of credit card charges.

Recommendation – The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

Response – The City has established a written Credit Card Policy as of September, 2016.

Conclusion – Response accepted.

II-F Complete and Accurate Log for Police – The City per Resolution #2012-08 required the Police Chief to maintain a complete and accurate log. We were not able to obtain such a log during the audit. In addition, per the job description the Chief of Police is required to make quarterly and yearly reports, which are to include mileage logs.

Recommendation – We recommend that the council review the resolution and job description for the Chief of Police and either change or enforce them.

Response – We will review these to be in compliance.

Conclusion – Response accepted.

II-G Interfund Transfers – During the year, the City Finance Committee approved transferring the balance of the Sewer Retirement Fund to the Sewer Fund. The transfer was recorded as approved, with the exception of a small portion of the Sewer Retirement fund balance being transferred to the General Fund. We were unable to obtain documentation of approval for this portion of the transfer during the course of our audit.

Recommendation – The City should record interfund transfers in their entirety as approved by the Council.

Response – We will do this.

Conclusion – Response accepted.

Part III: Other Findings Related to Statutory Reporting:

- III-A Deposits and Investments – A resolution naming official depositories has been approved by the City. The City held funds at a financial institution that was not named on the depository resolution.
- Recommendation – The City should ensure public funds are maintained at financial institutions approved by the Council and consider updating the depository resolution when necessary.
- Response – We has approved an updated depository resolution which includes all current financial institutions as of September, 2016.
- Conclusion –Response accepted.
- III-B Certified Budget – City disbursements for the year ended June 30, 2016 exceeded the amounts budgeted in the general government and debt service functions. Additionally, City disbursements exceeded the amount budgeted before amendment during the year in the capital projects function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”
- The City adopted a budget amendment on June 6 of the fiscal year under audit. Chapter 384.18 of the Code of Iowa states, in part, “A city budget shall be amended by May 31 of the current fiscal year.”
- Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response – The budget will be amended in the future as required.
- Conclusion – Response accepted.
- III-C Questionable Disbursements – We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.
- III-D Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-E Business Transactions – No business transactions between the City and City officials or employees were noted.
- III-F Bond Coverage – Surety bond coverage of City officials and employees was noted in the amount of \$10,000.
- Recommendation – The amount of coverage should be reviewed to insure that the coverage is adequate for current operations. The City should consult legal counsel to ensure compliance with Chapters 64.13 and 64.15 of the Code of Iowa.
- Response – We will do this.
- Conclusion – Response accepted.
- III-G Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-H Revenue Bonds and Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.
- III-I Payment of General Obligation Bonds – Certain general obligation bonds were paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service

general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response accepted.

III-J

Separately Maintained Records – The Library maintains a checkbook that is not recorded on the City’s books. Chapter 384.20 of the Code of Iowa states in part “a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.” The transactions have been included in these financial statements.

Recommendation – The City should include all separately maintained financial activity of the Library on the City books.

Response – We will ask for the accounting of these transactions on a monthly basis in order to record them on the City’s accounting system.

Conclusion – Response accepted.

III-K

Financial Condition – The Capital Project, Downtown Project Fund had a deficit balance of \$24,926 at June 30, 2016. Additionally, the Enterprise, CDBG Sewer Fund had a deficit balance of \$262,466.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The deficit was due to construction costs incurred prior to receipt of grants or other funding sources for the capital projects. The deficit will be eliminated upon receipt of applicable source funds.

Conclusion – Response accepted.

III-L

Employee Benefits Levy – During the year, the City recorded the receipt and disbursement of employee benefit tax levy funds within the General Fund. Chapter 384.6 of the Code of Iowa allows for the establishment of a trust and agency fund to account for employee benefit funds levied to meet necessary obligations of the City.

Recommendation – The City should establish a special revenue, trust and agency fund to account for the receipt and disbursement of the employee benefits special levy.

Response – We will consider this.

Conclusion – Response accepted.

III-M

Disposition of Real Estate – During the year, the City sold real property to a separate, nongovernmental entity. As part of the sale, the City agreed to a nominal monetary amount and certain conditions to be met, however the City has not received nor sought the monetary payment. Chapter 364.7(3) of the Code of Iowa states “a city may not dispose of real property by gift except to a governmental body for a public purpose.”

Recommendation – The City should seek the monetary payment for real property to ensure compliance with Chapter 364.7 of the Code of Iowa

Response – We will do this.

Conclusion – Response accepted.